

Financing Structures for Affordable Housing Transactions in the Current Market

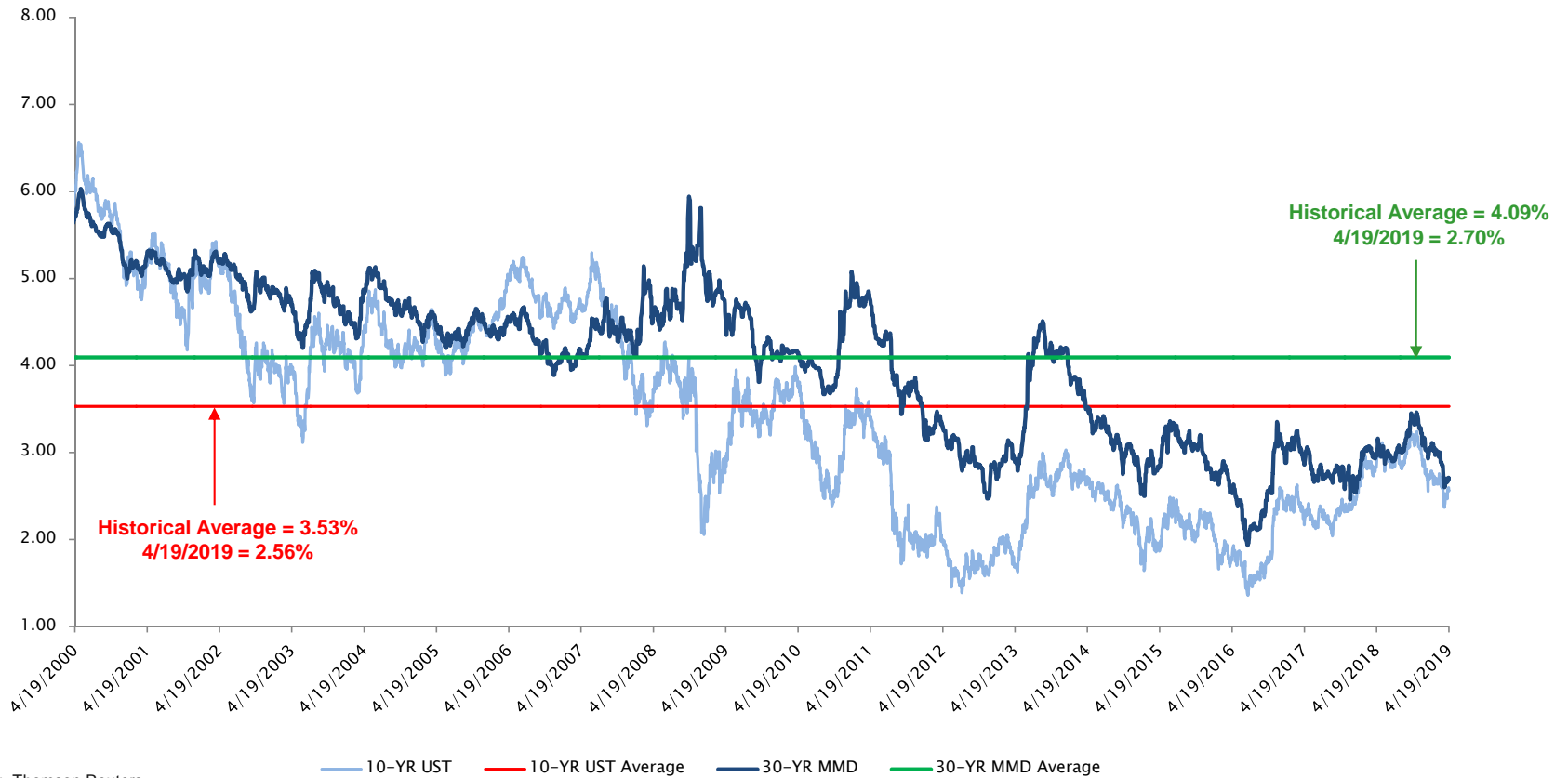
May 2019



TIBER HUDSON

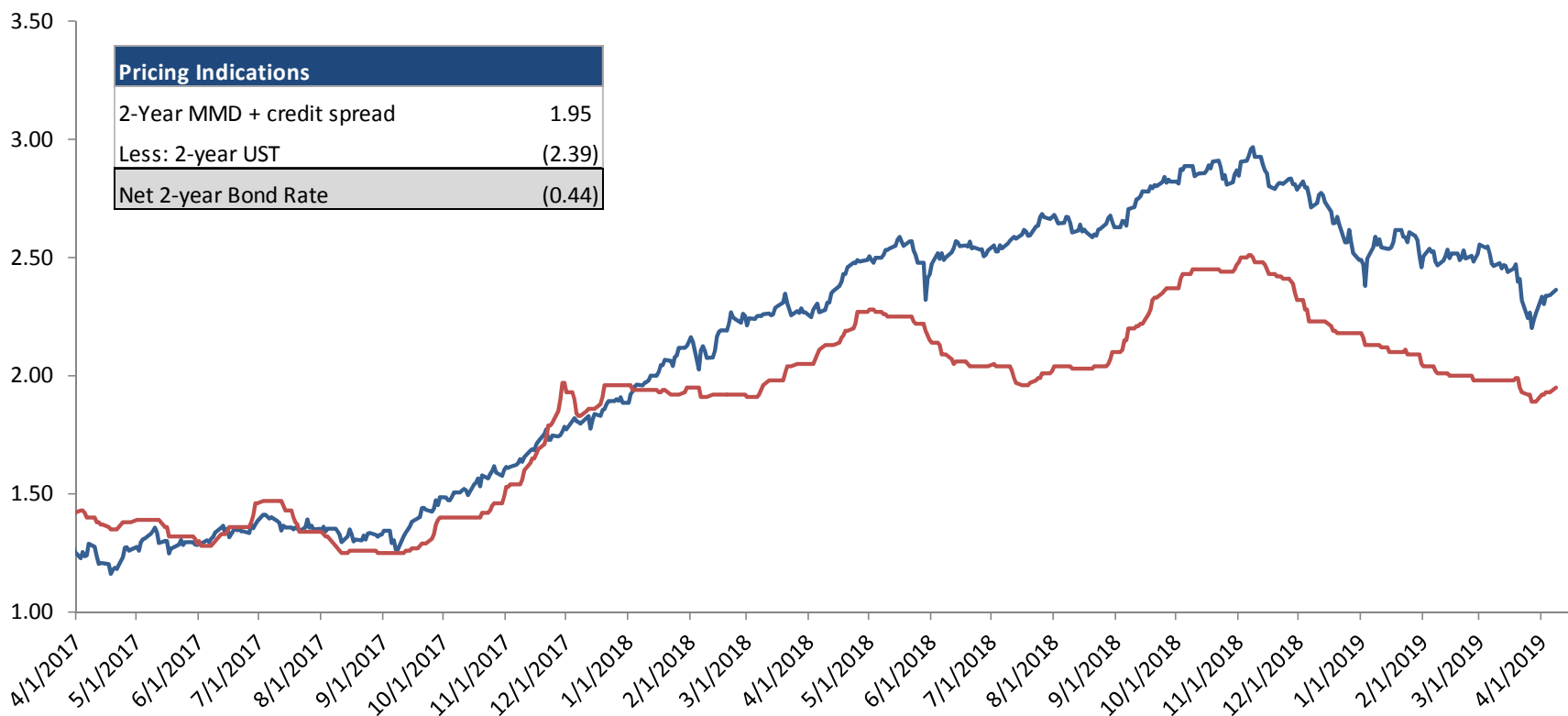
Kent Neumann, Esq.
Direct: (202) 973-0107
Cell: (703) 568-0190
kent@tiberhudson.com

Long Term Yield Curves (as of 04/19/19)



Source: Bloomberg, Thomson Reuters
 Reflects market conditions as of February 18, 2019
 Thomson Reuters Municipal Market Data (MMD) AAA curve is a proprietary yield curve that provides the offer-side of AAA rated state general obligation bonds

Short Term Yield Curve (as of 04/19/19)

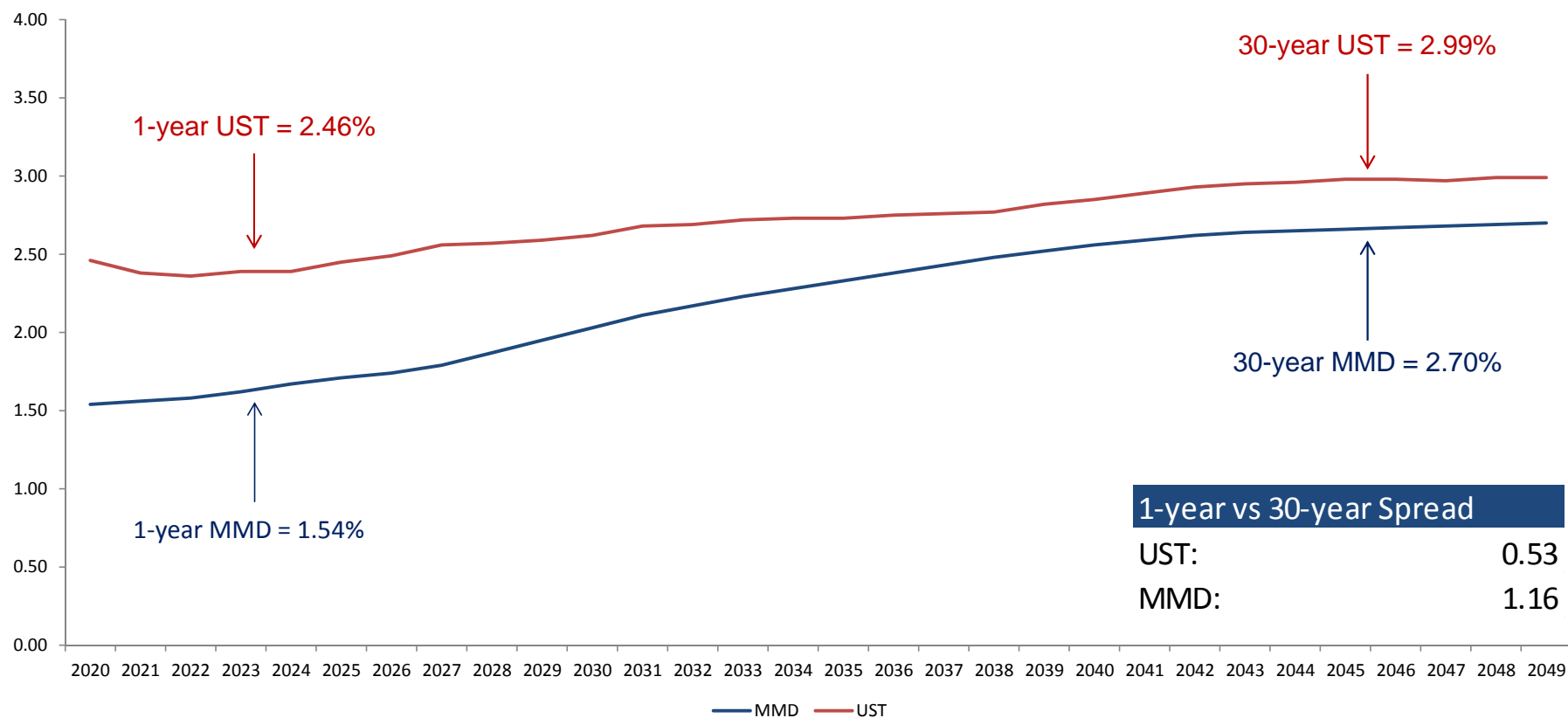


Source: Bloomberg, Thomson Reuters
Reflects market conditions as of February 18, 2019

Thomson Reuters Municipal Market Data (MMD) AAA curve is a proprietary yield curve that provides the offer-side of AAA rated state general obligation bonds

— 2-Year UST — 2-Year MMD (plus credit spread)

Historically Flat Yield Curve (as of 04/19/19)



Source: Bloomberg, Thomson Reuters
 Reflects market conditions as of February 18, 2019
 Thomson Reuters Municipal Market Data (MMD) AAA curve is a proprietary yield curve that provides the offer-side of AAA rated state general obligation bonds

Short Term Cash-Backed Bonds with Taxable Perm Loan

- Taxable construction and/or perm loans still available in the current market at historically low rates including:
 - FHA/GNMA (221(d)(4) / 223(f))
 - Rural Development (538 / 515)
 - GSE loans (mod/light in-place rehab)
 - Other (taxable) State and/or Local loan programs

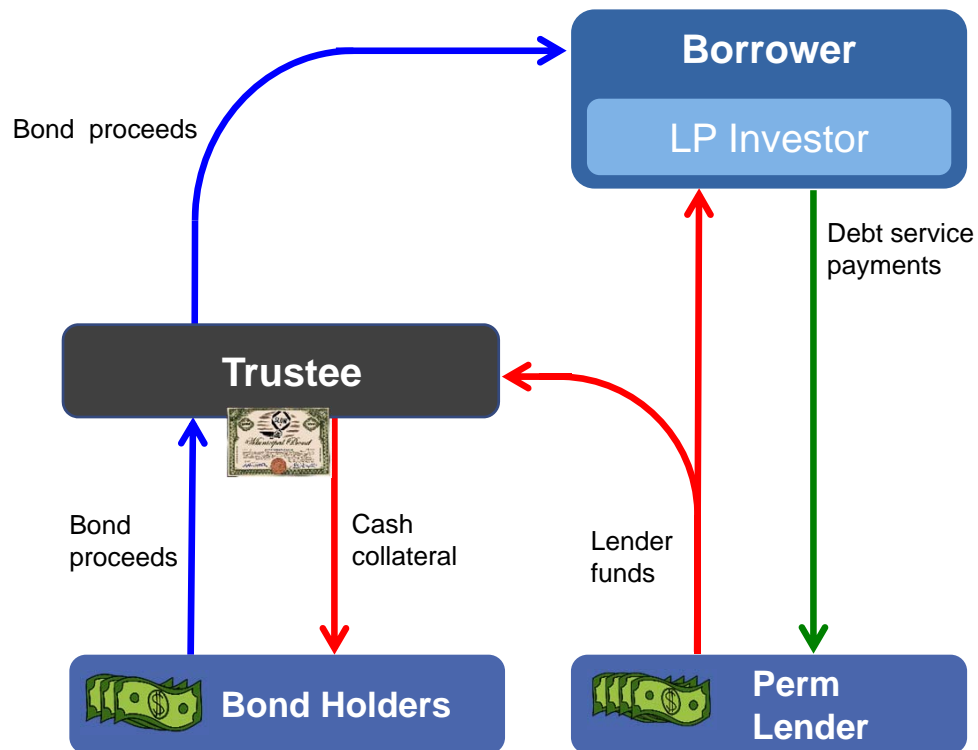
Short Term Cash-Backed Bonds with Taxable Perm Loan

- Favorable Underwriting Terms include:
 - 35/40 year amortization
 - Fully amortizing debt / no resizing at conversion
 - Non-recourse & integrated construction and perm
 - David Bacon wages triggered if federal funds used for sub rehab / new construction deals
 - Most are structured as draw-down loans to avoid neg arb
 - FHA debt qualifies for 10-year hold exemption (for acquisition credits)
 - All in rates from low 4% - 5% range

4% Low Income Housing Tax Credits: The 50% Test

- Project still need tax exempt bonds to qualify for 4% Low Income Housing Tax Credits
- At least 50% of aggregate basis (including building and land) must be financed with tax exempt bond proceeds
- Provides a significant (~30% or higher) additional source of funds for affordable housing transactions
- Can be used independently or with other “longer term” bond structures to meet 50% test

Short Term Cash Backed Bonds



Short Term Cash Backed Bonds

Bond Amount to meet 50% test < Taxable Loan Amount (see prior slide): No additional collateral needed!

Bond Amount to meet 50% test > Taxable Loan Amount: Need other collateral sources of funds including:

- Subordinate Loan Proceeds
- Seller Note
- Tax Credit Equity

Example Sources and Uses

Short-Term Cash-Collateralized Bonds with Taxable Perm Loan	
Sources	
Taxable Loan Funds	\$9.0 M
Bond Proceeds ⁽¹⁾	7.0 M
4% Tax Credit Equity	3.5 M
Deferred Developer Fee	0.0 M
Subordinate Financing	<u>0.5 M</u>
Total Sources	20.0 M

Uses	
Redemption of Bonds	\$7.0 M
Acquisition	8.0 M
Rehabilitation	3.0 M
Developer Fee	1.0 M
Financing Costs + Soft Costs + Reserves	<u>1.0 M</u>
Total Uses	20.0 M

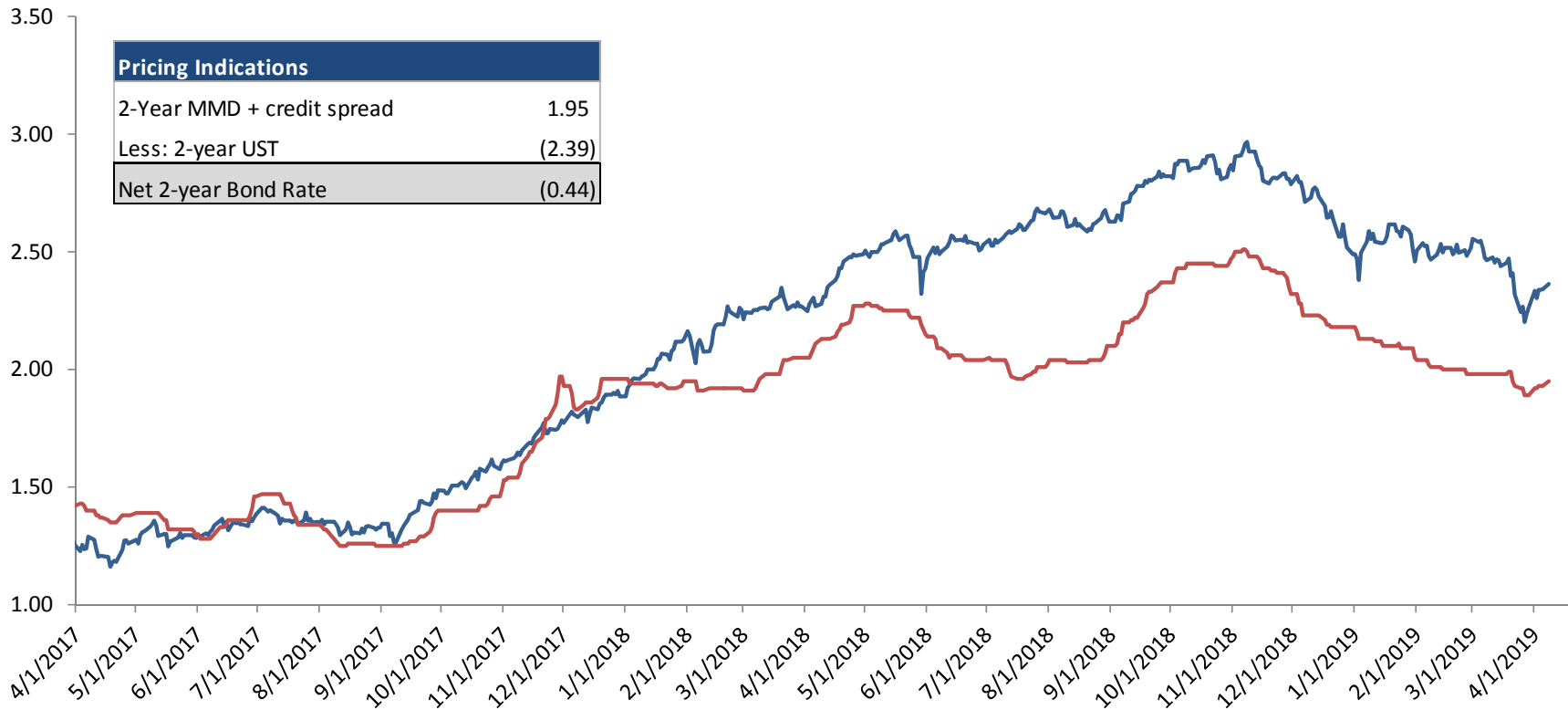
(1) \$7 million sized on 50% test (\$13 million total costs)

Other Cost Saving Features/Options

Methods to reduce transaction costs and generate more proceeds:

- Pooled financings – multiple projects w/ one aggregate bond issuance
- No long term bond related fees
- Potential for additional tax credit equity due to increased basis
- No net interest cost on bonds and in some cases, additional investment earnings can be used for other project costs

Short Term Yield Curve (as of 04/19/19)

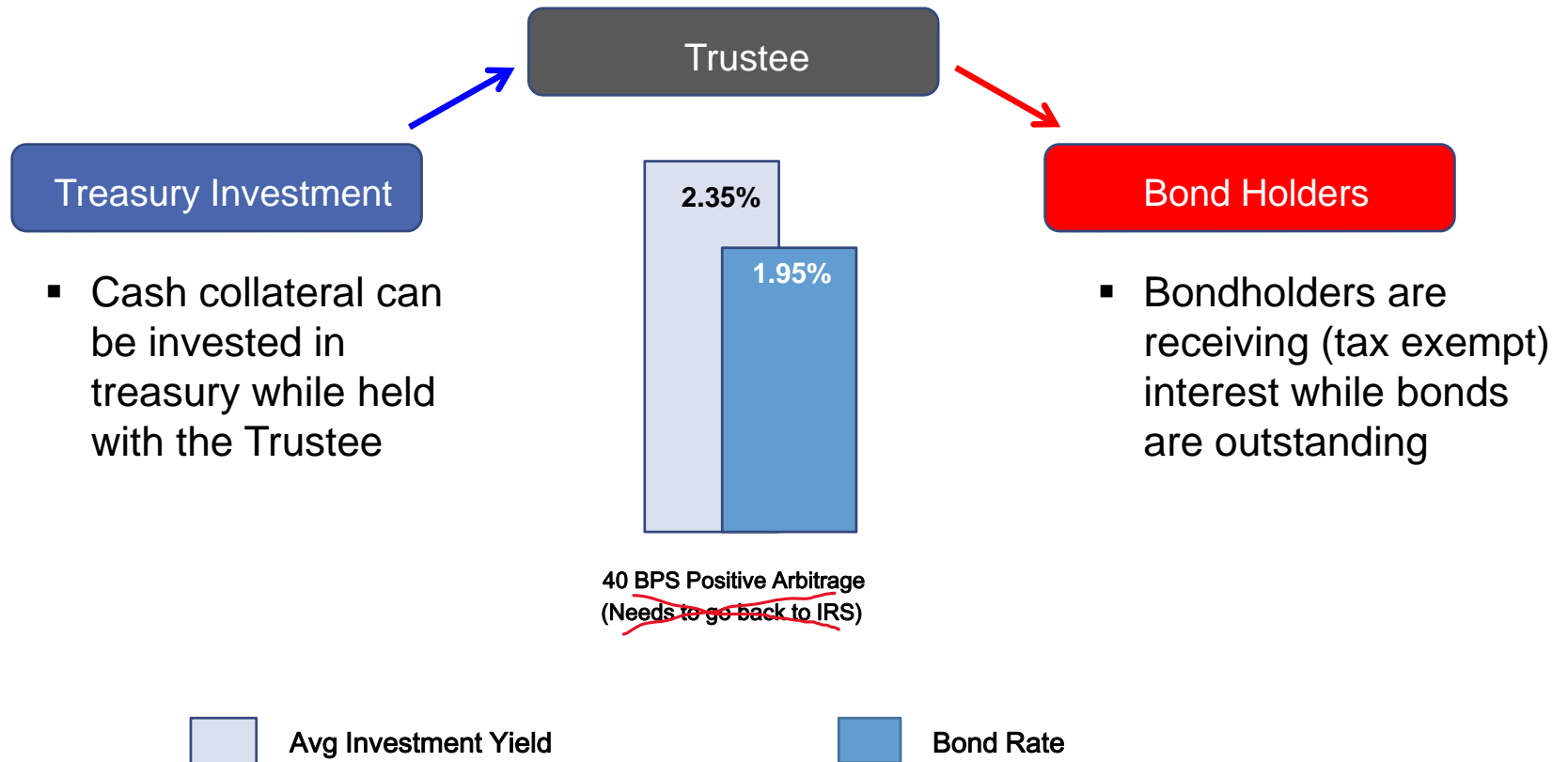


Source: Bloomberg, Thomson Reuters
Reflects market conditions as of February 18, 2019

Thomson Reuters Municipal Market Data (MMD) AAA curve is a proprietary yield curve that provides the offer-side of AAA rated state general obligation bonds

— 2-Year UST — 2-Year MMD (plus credit spread)

Negative/Positive Arbitrage



Costs of the Short Term Bond Deal

Issuer Fees*:	0.10% - 3.00%
Bond Counsel*:	\$35,000 - \$100,000
Underwriter's Fee:	0.50% - 1.00%
Underwriter's Counsel:	\$30,000 - \$50,000
Miscellaneous:	\$10,000 - \$20,000
Negative Arbitrage*:	ZERO

Timing of the Short Term Bond Deal

Bond Application/Volume Cap/Initial Approval

- As soon as possible

Document Preparations and Review

- Around Submission of Taxable Loan Application

Bond Pricing

- ~2 weeks before Closing

Pre-close/Close

- Simultaneous with Taxable Loan closing

Long Term Bonds Backed by GNMA's

- Long term tax exempt rates are starting to trend lower than taxable rates
- Newer “pass through” bond structure sold to certain buyers based on historic average life has recently priced well in the market while reducing certain traditional bond costs
- Negative arbitrage can still result in significant up front deposit for 221 loans depending on initial draw (we can help with this)
- Other factors for structure should be discussed well in advance of starting documents

Tax Exempt Seller “Take Back” Note & Bonds

- Many 4% preservation deals include seller financing in the form of a subordinate “take-back” note (common in RAD transactions)
- Due to the LIHTC 50% test, tax-exempt bonds in excess of the permanent financing are often required in these deals
- Several ways to address this issue with various bond structures (often with a positive result)

FHA Refinancing to Re-syndication (R2R)

GOAL: Lock in today's rates for future tax credit deals ...

FHA Refinancing to Re-syndication (R2R)

- **NEW LOAN:** FHA 223(f) loan to refinance existing debt or purchase project. Keep rehab to a minimum.

Highlights of 223(f) loan

- Exempt from LIHTC 10-year rule (Section 42(d)(6))
- 35+ year full amortization and term
- 80-90% LTV / 1.11 DSCR
- ~**4.25%** all-in rate including 25bps MIP for affordable deals
- Exemption from Davis-Bacon wages; Non-recourse

FHA Refinancing to Re-syndication (R2R)

**WHEN READY TO INTEGRATE TAX CREDITS
(Upon Year 15 or otherwise):** Owner would simultaneously take 3 steps ...

FHA Refinancing to Re-syndication (R2R)

Step 1: TPA (transfer of physical asset) process.

Highlights of TPA

- Take 90-120 days
- Remaining term of FHA loan would be 30+ years
- No prepayment fees or substantial transfer fees
- Cost is 5bps to HUD and any charge the lender wants to impose for any help they give

FHA Refinancing to Re-syndication (R2R)

Step 2: Supplemental **FHA 241(a) loan.**

Highlights of 241(a)

- Second position FHA loan sized to the lower of (a) 90% of rehabilitation and related construction costs or (b) 1.11 DSCR for total FHA debt
- Is a construction loan program (clc/plc) and not limited to 223(f) pilot rehab limits
- Loan term/amortization can be up to 40 years although default is for it to match the remaining term on the senior FHA loan
- Possible exemption of Davis-Bacon wage requirements

FHA Refinancing to Re-syndication (R2R)

Step 3: Use tax exempt bonds to qualify for 4% tax credits.

Highlights of Bonds/4% Credits

- Need to pass 50% test to qualify for 4% low income housing tax credits
- 95% Bonds need to be spent on “good” costs of project
- Flexibility structured into original 223(f) loan to account for potential sizing issues

Contact Information



TIBER HUDSON

Kent Neumann, Esq.
Direct: (202) 973-0107
Cell: (703) 568-0190
kent@tiberhudson.com

Allison King, Esq.
Direct: (202) 973-0118
allison@tiberhudson.com

Lauren Marcus, Esq.
Direct: (202) 973-0122
lauren@tiberhudson.com

Alex Zeltser, Esq.
Direct: (202) 973-0105
alex@tiberhudson.com